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SUBJECT: SOUTHEAST SULAWESI: A REMOTE PROVINCE FOCUSES ON
OPPORTUNITIES OF REGIONAL AUTONOMY

REF: SURABAYA 34 (GORONTALO: CORN, CORRUPTION, AND PROMISE)

SURABAYA 00000087 001.2 OF 002

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¶1. (SBU) Summary: Located far from the centers of power, the province of Southeast Sulawesi (Sultra) is rich in natural resources yet poor in human capital and infrastructure. Sultra's recently elected, 41-year old, businessman governor has outlined a five-fold plan to capitalize on private-public partnerships and revitalize the local economy.   Hoping to use increased revenues from mining concessions, local officials have targeted investment in mining, fisheries, and tourism to spur economic development. Local officials bemoan the lack of support from the central government, but welcome the opportunities provided by regional autonomy to take control of the province's development. Sultra looks to the success of northern Sulawesi province of Gorontalo for inspiration. End Summary.

New Governor Looks for Change

¶2. (SBU) The remote province of Southeast Sulawesi (Sultra) boasts stunning vistas, exotic flora and fauna, and potentially lucrative untapped mineral resources.   However, a lack of transportation links to domestic and international markets, insufficient infrastructure, and a poorly educated population have limited the province's economic development. Currently heavily dependent on central government financial support, Sultra contributes just 0.48% to Indonesia's GDP. Nur Alam, a 41-year old businessman and chairman of Sultra's National Mandate Party (PAN) who was elected governor in December 2007, intends to change Sultra's fortunes. Looking to the success of neighboring Gorontalo for inspiration, Nur Alm has launched an ambitious five-part action plan aimed at revitalizing the local economy and strengthening government institutions.

¶3. (SBU) According to members of the governor's staff who briefed ConGen Surabaya's Principal Officer during a July 14-16 visit, Nur Alam's action plan consists of five components: human resource development, bureaucratic reform, improved investment climate, cultural site promotion, and infrastructure development. To fund these programs, the government plans to use increased mining revenues generated by renegotiating long-standing concessions. According to the governor's staff, PT Aneka Tambang (Antam) earns Rp. 3.2 trillion (USD 351.6 million) from its mining concessions in Sultra, yet the

provinces receives just 3.5%, or Rp. 103 billion (USD11.3 million) in total revenues. Meanwhile, the company was not fully developing the site. The governor's office complained that over the past 40 years Antam has utilized just 8,000 hectares of the 106,000 hectares of land included in the concession. The governor's office views successful renegotiation of the contract, involving the company, the state, and the Minister of Energy and Minerals, as a landmark accomplishment.

Opportunities from Regional Autonomy
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¶4. (SBU) Nur Alam is taking advantage of opportunities created as regional autonomy transfers greater authority toward the local governments but there are no rules governing renegotiating mineral leases. Some economic officials expressed concern that Sultra was lagging behind other provinces (including East Kalimantan, Papua, and West Sumatra) in increasing revenues paid by state-owned companies operating in the province. Rather than establishing a precedent for similar contracts, each negotiation stands alone, requiring new negotiations for each individual project which creates a lengthy and inconsistent process and disadvantages the local governments. While the provincial governors have opportunities to discuss shared concerns, such as negotiations with the central government or state-owned companies, the governors have yet to coordinate their efforts to renegotiate improved contract terms and are thus dependent on the negotiating skills and energy of their elected officials.

¶5. (SBU) Sultra hosts the Kapet of Bukari, an Integrated Economic Development Zone established by the central government to strengthen the economic development of economically needy areas. While the governor's staff and local businessmen dismiss the Kapet as ineffective, the governor reportedly issued a letter instructing regencies and cities to be more involved in Kapet's activities. In turn, the Kapet has proposed increasing

its annual operational budget from Rp 4 billion (USD 439 thousand) per year to Rp 35 billion (USD 3.8 million) in order to help implement the governor's agenda.

Obstacles: Electricity, Infrastructure and Bureaucracy
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¶6. (SBU) Businessmen and government officials point to inconsistent electricity supplies and a lack of transportation infrastructure as the biggest obstacles to development. The national electricity utility PLN can only supply electricity to 37% of the province and many villages have purchased their own diesel-powered generators to provide residents with minimal power. Even in the capital Kendari, rolling blackouts are common, and many companies can only rely on 12 hours of electricity per day. The provincial government will host a meeting of all regents and mayors the week of July 21 to discuss how to resolve the electricity problems. The provincial government intends to develop public-private partnerships to build two new power plants (one state-owned and one privately owned) with a total capacity of around 20 megawatts. Additionally, the government plans to build a 70 megawatt coal-fired power plant near Kendari by 2011.

¶7. (SBU) The governor's office admitted that increasing bureaucratic efficiency may be the greatest challenge to implementing the governor's agenda. The recent increase in the number of regencies from four to 12 is expected to make the bureaucracy even less efficient, at least initially. The governor reportedly intends to have monthly coordinating meetings with the regents to remind them that while he may not own the land that make up the individual regencies, he will play a synchronizing role to ensure economic development is distributed equitably. The governor's staff observed that greater regional autonomy would be successful if the province had a smart, resourceful governor. They noted that many individuals were reluctant to take the initiative as they

continued to wait for orders from above. Similarly, the governor must delegate authorities and not try to keep all the power for himself.

Gorontalo as a Model

¶8. (SBU) Sultra's governor's office looks to the successful economic development programs of the nearby northern Sulawesi province of Gorontalo as Sultra's model (reftel). They point to the strong commitment of Gorontalo's governor, who is not content to wait for the cogs of bureaucracy to turn, and Gorontalo's legislature. Sultra intends to copy Gorontalo's success with corn by buying any amount of produce (particularly fish) that the local population can supply so that the people will know that what they produce has value and will have an incentive to produce more. The idea is to provide fair income sharing between farmers/fishermen and businessmen. The Sultra government divides the production cycle into three stages and provides relevant assistance at each stage. At the pre-production stage, the government provides trainers to teach farmers how to plant and maintain the fertility of the land. At the plantation stage, the government guarantees a farmer's access to capital and fertilizer. In the third stage, harvest, the government will buy any product the farmer produces at a high price. According to Kapet officials, while mining represents 95% of Sultra's exports, it represents only 4.53% of the province's economic activity. Agriculture makes up 43.37%, with Trade and Tourism at 14.22%.
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